NOVA SCOTIAN CO-OPERATIVES and...

The Law

A COMPLETE COLLECTION OF GUIDELINES AND PROCEDURES INVOLVED IN CO-OPERATIVE LEGISLATION AS WELL AS OTHER IMPORTANT MATERIAL USEFUL FOR THOSE INTERESTED IN OR INVOLVED WITH CO-OPERATIVES.

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NOVA SCOTIAN CO-OPERATIVES

AND THE LAW

- Explains the function of the Inspector of Co-operatives.
- Describes services of the government.
- Summarizes the Co-operative Act.
- Provides help for Corporate Secretaries and Officers.

Also includes:

1. Extraordinary Resolution;
   Inspector of Co-operatives Report;
   Submission Requirements;
   Non-audit;
   Change of Address;
2. Borrowing of Money Resolution;
   By-law Revision;
   Change of Name and other Procedures.

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AGRICULTURE AND MARKETING

LEGAL PROCEDURES AND RESOURCES

FOR N.S. CO-OPERATIVES

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NOVA SCOTIAN CO-OPERATIVES
AND
THE LAW

Introduction

The Co-operative Associations Act in Nova Scotia is administered by the Inspector of Co-operatives, an employee of the Department of Agriculture and Marketing, who has been appointed by the Minister of the Department.

The Department of Agriculture has been involved with Co-operatives dating back to the early 1900's when Agricultural Representatives were helping farmers group their shipments of livestock to markets in New England, with the farmers in Pictou County who formed the Scotsburn Creamery, and with most early marketing ventures by groups of farmers who wished to use the Co-operative system.

In 1906, the Farmers Co-operative Associations Act was enacted as a special part of the Companies Act, and in 1935, the first Co-operative Associations Act was enacted by Parliament, but still had a close tie with the Companies Act. This 1935 Act appointed the Department of Agriculture as the Department responsible for the administration of the Act because most of the Co-operatives were associated with the agricultural communities in the province, and Department employees were working closely with Co-operative organizations.

There are close to two hundred Co-operatives in the province, thirty or which are associated with agriculture and make up the largest portion of the total sales of Co-operatives.

Because of the tradition and the importance of Co-operatives and the agricultural industry, the administration of the Act continues to be in the jurisdiction of the Department of Agriculture and Marketing.

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In 1981, sales will be in excess of 350 million dollars and now represent over seven percent of the economic activity of the province. Co-ops provide housing for over one thousand families, employ over three thousand Nova Scotians on a full-time basis, manage over 50 thousand acres of woodland, and market over 70 percent of the value of agricultural production in the province. Co-operatives have over 40 thousand Nova Scotians as members, representing,along with Credit Unions, one in every three Nova Scotians.

The Inspector of Co-operatives, who has been delegated the responsibility of the administration of the Act,has a number of roles to play taking direction from the Act and Policies of the Department of Agriculture.

Incorporation of a Co-operative is a privilege, and not a right, as most other incorporation procedures provide, e.g. Companies Act. The Inspector of Co-operatives exercises this judgement, and,as such, must obtain adequate information from the subscribers to assure himself that the organization will be run on a co-operative basis and that the organization continues to operate to the benefit of the members while adhering to the Co-operative principles and the Act.

This parental position of the administration of the Act is shown throughout the Act in the approval of resolutions, auditors, amalgamations, and by the authority of the Act to permit the Inspector to examine or investigate the Co-operative or its officers on his own volition. In other words, the Inspector of Co-operatives is the ombudsman for Co-operatives and Co-operative members. However, in practice the Inspector prefers to exercise his powers only when requested to by members of the Co-operative.

The Registrar of Joint Stock Companies acts as the filing agent for all legal documents of Co-operatives, e.g. Articles of Incorporation, By-laws, Extraordinary Resolutions, etc.; however, the Registrar is not permitted to file a document until it has been approved by the Inspector of Co-operatives. This system has worked well in the past keeping all the records and information under the control of a single administrator who has special knowledge and information about Co-operative activities in the province.

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Incorporation charges, filing charges and the general Act administration cost to the Co-operative are kept low purposely so as not to put a financial roadblock in the way of any small group.

The Co-operative is required to submit to the Inspector yearly:

1. An Auditors Report;
2. Financial Statements including Operating Statement & Balance Sheet;
3. Inspector of Co-operatives Report (see form) which includes: list of officers, number of members and other information;
4. Management letters of the auditor.

periodically:

1. Change of address notice (see form);
2. Extraordinary Resolution for approval (see forms);
3. Amalgamation agreements for approval;
4. Approval request for auditor;
5. Other requirements of the Act.

The Co-operative Section of the Department provides other services to Co-operatives and those associated with Co-operatives ,for example:

1. Advice pertaining to the Co-operative Associations Act;
2. Management procedures and information resources;
3. Directorship procedures and information resources;
4. Courses and resource materials for officers and employees of Co-operatives;
5. Statistics and information concerning Co-operative operations and status;
6. Assistance with new incorporations, legal procedures, liquidation, etc.
7. Seminars and workshops on Co-operative operations.

For further information contact —

Inspector of Co-operatives
N.S.A.C.
P.O. Box 550
Truro, B2N 5E3 895-1571 extension 193

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SUMMARY OF LEGAL PROCEDURES FOR CO-OPERATIVES RELATING TO THE N.S. CO-OPERATIVE ASSOCIATIONS ACT

Most of the procedures relating to the Co-operative Associations Act are directed through the office of the Inspector of Co-operatives. The Co-operatives Section have prepared a number of forms and recommended procedures to assure that the provisions of the Act are adequately covered. Following is a summary of the procedures along with the person responsible and a timing of submission.

Report Certificate or Form	Responsible	Time
1. *Inspector of Co-operatives	the Auditor	within four months of the year end.
(a) Auditor's Report	the Auditor	within four months of the year end.
(b) Financial Statements	the Auditor	within four months of the year end.
(c) Auditor's Management Letters	the Auditor	when they are written or with Auditor's Report.
2. Approval of Auditor	the Secretary	before the year end so the Auditor can attend stock taking.
3. *Change of Address	the Secretary	within 28 days of the change.
4. Change of Name	the Secretary	immediately after the approval is received from the members.
5. *Extraordinary Resolution	the Secretary	within 14 days of the passing of the resolution.
6. Approval to sell, mortgage, lease or dispose of property without an extraordinary resolution.	the Secretary	before the agreement is signed when it is impractical for an extra ordinary resolution to be exercised.
7. Approval for joint venture,	the Secretary	before the agreement is signed.
8. Approval of shares being less than par value.	the Secretary	before any payment is make to members when the Co-operative is in a deficit position.
9. Amalgamation approval.	the Secretary	after membership approval.
10. Certificate of good standing.	the Solicitor	when requested by a lending institution.
11. Certificate of continuation.	the Solicitor	when organization wishes to transfer to federal Co-op Act.
12. Liquidation Procedure Forms.	the Liquidator	a step-by-step procedure for liquidation with necessary forms.

CO-OPERATIVE ASSOCIATIONS ACT AND REGULATIONS
CHAPTER 7, ACTS OF 1977

Co-operative people fought for a long time to persuade governments to enact legislation which would give them laws so they could incorporate all co-operatives under co-operative legislation.

The Co-operative Associations Act of Nova Scotia, Chapter 7, Acts of 1977, the latest revision, by a committee representing co-operatives and governments in the Maritime provinces, was the result of over five years of work and meetings. Many people consider the results as an excellent piece of legislation.

The advantages of the new legislation are:

1. It's Simple and understood by laymen.
2. It's Well Written, in good order, and in a language most everyone can understand.
3. It's All-Encompassing and does not need to rely on other legislation for action as was previously the case.
4. It's Short, containing only 37 pages, compared to 137 pages in the Companies Act.
5. It's What Co-operatives Want - Each and every N.S. Co-operative was invited to submit ideas and suggestions, and as well, its authors, principally from Co-operatives, were concerned with making the Act acceptable to Co-operative people.

If you put all these facts together, along with forty years of experience and testing, you're bound to come up with a product well accepted.

Now that we have the law we want, it is the responsibility of those who are required to use it, to study and understand the Co-operatives legislation.

Following is a summary of the Co-operative Act and Regulations for your use. These laws require that a copy of the Co-op and Regulations be available on demand to each member of a Co-operative to view at the registered office of the Co-operative.

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DIRECTORS LEGAL RIGHTS AND DUTIES

Directors are required to manage the affairs of the business. The President is responsible for making sure the legal responsibilities of managing the Co-operative are brought to the attention of the Directors.

DIRECTORS

1. Approve or Disapprove
   (a) membership applications (25,R)
   (b) repayment of members' equity. (R)
2. Appoint
   (a) auditors, if the members fail to (4, 2)
   (b) a President, Vice President, Secretary and Treasurer (R)
   (c) board members when a vacancy occurs (33, 5, 7)
   (d) a manager. (33, 3)
3. Direct
   (a) that books of account are kept (41)
   (b) where place of business is to be
   (c) application and use of the seal (R)
   (d) that a percent of the surplus each year be directed to the reserve fund. (R)
4. Meet after every annual meeting. (R)
5. Manage the affairs of the association. (33)
6. Call
   (a) special meetings (R)
   (b) director meetings.(R)
7. Cause minutes of director meetings and general meetings to be kept. (33, 9)
8. Lay an audited financial statement and report before the annual meeting. (41, 2)
9. Have power to pay part of the price of the commodity. (34, 4)

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DIRECTORS MAY

10. Transfer
    (a) membership (R)
    (b) shares (R)
    (c) deceased members' equity to persons they deem entitled (28, 5)
    (d) members' equity as directed by the nomination of the member. (28, 4)
11. Pay unclaimed members' equity to a charitable organization. (61)
12. Declare a director's office vacant. (33, 5)
13. Delegate powers of the Board to Committees. (R)
14. Expel any member who does not observe any of the by-laws. (29,2R)
15. Refuse payment of a member's equity. (29, 1)
16. Determine the value of a member's equity when it is less than par.
17. Subject to Extraordinary Resolution (R)
    (a) raise or borrow money
    (b) secure repayment of money
    (c) sign security for borrowed money
    (d) pledge debenture for borrowed money.

THE CO-OPERATIVE ASSOCIATION

The Co-operative Association, as an identity, has rights and responsibilities under the law. The Board of Directors usually assure that these duties and responsibilities are met. They are:

1. Have its registered office in Nova Scotia. (22)
2. Keep
    (a) a register of members (24, 1)
    (b) a nomination of beneficiary (24, 6)
    (c) a proper book of accounts. (31, 6)
3. Have a charge upon the shares and equity of any member for member's debts. (26, 2)

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THE CO-OPERATIVE ASSOCIATION continued ...

4. Hold a general meeting within four months of the year end. (20, 1)
5. Cause the minutes of general meetings to be kept. (21, 6)
6. Elect a Board of Directors no fewer than three. (33, 2)
7. Not issue preference shares. (20, 1)
8. Forward a copy of every Extraordinary Resolution to the Inspector, (32, 1)
9. Not be required to issue Certificates for shares or membership. (R)
10. Create a general reserve. (R)
11. Not pay a patronage dividend which will create or increase a deficit. (36, 3)
12. Give a notice to the Inspector of the place of its registered office. (23)
13. Not contribute to a political party. (17)
14. Give notice of Special and general meetings. (40, 5)
15. Send to the Inspector each year
    (a) a copy of the audited financial statements (42)
    (b) a completed Inspector's Report. (42)
16. Make by-laws. (R)
17. Not permit the withdrawal of a member's equity when such withdrawal would impair the financial stability of the association. (29, 1 C)

MAY

18. Elect delegates. (32, 1)
19. Amend or alter the objects of its Articles of Incorporation. (18, 1)
20. Require its members to lend its patronage dividends. (38, 1)
21. With the sanction of an Extraordinary Resolution:
    (a) Amend its Articles of Incorporation (15, 1)
    (b) Change its name. (19, 1)

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21. continued ...

(c) Amalgamate (43)
(d) Change its by-laws (R)
(e) Dissolve.(44, 1)

22. Pay or not pay patronage dividends.(36, 4, 5)

MEMBERS OF CO-OPERATIVE ASSOCIATIONS

The members of the Co-operative Association also have responsibilities and authorities under the Act which are:

1. Have one vote. (31, 1)
2. Elect a Board of Directors. (R)
3. Be given a copy of the by-laws if requested.(R)
4. Be entitled to inspect the members register. (R)
5. Decide who votes when shares are held jointly. (R)
6. Have the right to appear before membership meeting to explain why he should not be expelled. (29, 2)
7. Not be required to purchase shares in excess of par value. (37, 2)
8. Not be required to purchase shares when the association is insolvent. (38, 2)
9. Appoint or remove auditors unless authorized not to. (40, 1)

MAY

10. Request the Inspector to investigate the co-operative. (5, 2, b)
11. Form an association (6) (3 members)
12. Nominate someone to receive shares upon his death. (28, 1)
13. Withdraw from membership. (29, 1)
14. Be excluded from membership. (29, 2)
15. Elect directors or delegates. (32, 3)
16. Remove directors at a general meeting. (33, 5)
17. Make marketing contracts. (34, 2)
18. Be required to lend all or part of their patronage dividends. (38, 1)

INSPECTOR OF CO-OPERATIVES

In order to administer the Co-operative Associations Act, the Inspector of Co-operatives has duties and privileges, which are:

SHALL

1. Approve or not approve
   (a) Articles of Incorporation or by-laws (5, 2)
   (b) Extraordinary Resolutions (32, R)
   (c) Auditors (40, 1)
   (d) Amalgamation agreements (43, 4)
   (e) Agreements for co-operation, joint venture, reciprocal concession, etc. (16, i)
   (f) the sale, mortgage, lease, etc., of the association. (16, c)
2. Perform such duties as may be required or directed. (5, 2, f)
3. Prepare and deliver each year a report showing the number of associations and the financial standing of each association. (5, 2, d)
4. Receive and file all returns and reports required by each association. (5, 2, c)
5. Investigate, inspect and examine co-operatives when requested by 10 percent or 50 members. (5, 2, b)
6. Endorse a Certificate of Incorporation. (12, 1)
7. Transmit to the Registrar one copy of the Articles of Incorporation and by-laws for filing. (12, 1)
8. Return unapproved Articles of Incorporation and by-laws to a proposed Association with a statement of his reasons for not approving. (12, 2)
9. Transmit to the Registrar Extraordinary Resolutions (if approved) for filing. (32, 1)
10. Return unapproved Extraordinary Resolutions to the Association with reasons for not approving. (32, 2)
11. Cause a notice of dissolution to be filed with the Registrar (if the Inspector approves the resolution) and advertised in the Royal Gazette. (44, 4)

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INSPECTOR OF CO-OPERATIVES continued ...

12. Proceed with dissolution when he has reasonable cause to believe that the Association is not in business. (45, 1, 2)

MAY

13. Call a general meeting when the Association is in default. (20, 2)
14. Examine officers, agents and servants regarding the affairs of the Association. (5, 3)
15. Investigate, inspect, inquire, and examine into the affairs and business of any Association. (5, 2, b)
16. Approve an Association not having an auditor. (40, 1)
17. Require that 25 percent of the members' equity in the Association was represented at a vote for dissolution. (44, 5)
18. Call another meeting if 25 percent of the members in (44, 5) were not present. (44, 6)
19. Refuse dissolution proceedings. (44, 7)
20. Require progress reports in the case of dissolution. (44, 8)
21. Designate an Association upon dissolution to which surplus funds may be directed. (60, 1, 2)
22. Dissolve an Association. (44, 1)
23. Designate the conditions of contribution to the general reserve. (R)

Individual copies of the Act are available from the office of the Inspector of Co-operatives, or may be purchased from the Government Bookstore, 1650 Bedford Row, Halifax, Nova Scotia B3J 1T2. 424-7580.

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EXTRAORDINARY RESOLUTION AND PROCEDURES

Extraordinary resolutions are directions from the members which are approved by the Inspector of Co-operatives and registered in the public file of the Registrar of Joint Stock Companies. These resolutions, required by the Co-operative Associations Act, assure the members a voice in the important decisions of their Co-operative.

To assure that members have an opportunity to voice their opinion and vote on the resolution, it is required that the members (1) receive ten days notice of the meeting, and (2) receive the intent of the resolution to be presented.

When the resolution is registered (forwarded to the Inspector within fifteen days of passing, certified by the Secretary that the meeting was properly held, accompanied with the appropriate fee), and filed (forwarded by the Inspector, after his approval, to the Registrar), the resolution is available for anyone to examine. It becomes a public document available at the office of the Inspector of Co-operatives, Truro, or the Registrar of Joint Stock Companies, Halifax.

When Extraordinary Resolutions are required:

1. To raise or borrow money. (32,L)
2. To sell, mortgage, lease or dispose of property. (16)
3. To acquire a business or any part of a business. (16)
4. To acquire or hold membership in any company or association. (16,h)
5. To amalgamate two or more associations. (43)
6. Alter or amend its Articles of Incorporation or By-laws. (18)
7. Change the name of the association. (19)
8. To dissolve an association. (44)

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NOTICE OF MOTION

In order to have an extraordinary resolution presented to the members at a special or annual meeting, it is required to forward along with the notice of the meeting a Notice of Motion.

A notice of motion must be spelled out in the meeting notice and is followed by the words "It will be proposed as an extraordinary resolution to" and followed by the intent of the resolution to be put to the meeting, e.g. "To amend the by-laws of the association relating to qualifications of membership" or whatever is intended.

Another example may be "To authorize the Board of Directors to borrow money and offer whatever security is required to build an addition to the grocery store on Main Street".

Each member is entitled to a notice of meeting and a notice of motion when an extraordinary resolution is proposed. This notice must be forwarded no less than ten days prior to the meeting date.

When the extraordinary resolution has been passed by three-fourths of those members present and entitled to vote at a general meeting, the Secretary of the association must certify that the meeting was convened and held in accordance with the by-laws and that the intention to propose the extraordinary resolution as an extraordinary resolution was specified in the notice calling the meeting.

The seal of the association is required to be affixed to the certificate. The resolution, accompanied with the certificate of the Secretary and a cheque for five dollars ($5.00), is to be forwarded to the Inspector of Co-operatives, P.O. Box 550, Truro, B2N 5E3, for his approval within fifteen days of the passing of the resolution.

APPROVAL OF THE EXTRAORDINARY RESOLUTION

When the Inspector of Co-operatives receives the extraordinary resolution, he confirms that it has been properly drafted and that the Co-operative is in "good standing" (that the necessary submissions have been forwarded by the Co-operative and that, to the best of his knowledge, the association is being run on a co-operative basis). The Inspector then approves the resolution and forwards it to the Registrar for filing.

After the Registrar confirms to the Inspector that the extraordinary resolution has been filed, the Inspector forwards a confirmation of registration to the Co-operative.

The Co-operative Section keeps detailed files on each Co-operative including copies of the extraordinary resolutions registered. This office may be a valuable reference for Co-operatives doing research or wishing to update their records.

For further information, the Inspector of Co-operatives may be contacted at his office — N.S.A.C., P.O. Box 550, Truro, B2N 5E3, telephone number 895-1571.

The Secretary's Certificate following is required to accompany each extraordinary resolution:

THE CO-OPERATIVE ASSOCIATIONS ACT
CHAPTER 7, ACTS OF 1977

Extraordinary Resolution

of the

_____

_____

I certify that attached hereto is a true copy of the Extraordinary Resolution duly passed by a majority of not less than three-fourths of the votes cast by the members present and entitled to vote at a General Meeting of the members of the said Association convened and held in accordance with the by-laws thereof at _____ in the County of _____ on the _____ day of _____ 19___ and that the intention to propose the said resolution as an Extraordinary Resolution was specified in the notice calling the said meeting in accordance with the Co-operative Associations Act, Chapter 7, Acts of 1977 and the by-laws of the Association.

_____
Secretary of the said Association

SEAL

Two copies of this extraordinary resolution are to be forwarded to the Inspector of Co-operatives, P.O. Box 550, Truro B2N 5E3 within 15 days.
A fee of five dollars ($5.00) must accompany this notice.

BORROWING OF MONEY EXTRAORDINARY RESOLUTION

When a Co-operative begins operations, the directors usually choose a bank or credit union to clear their money transactions, etc. (Section 24 Regulations).

Most credit granting and deposit organizations require an extraordinary resolution of the members empowering the Board to borrow money from that institution. This resolution is required by the lending institution for their protection in case of a cheque deposited with insufficient funds (which results in a borrowing) and for a line of credit that the lending institution considers is justified under the circumstances.

This extraordinary resolution is required to be processed in the same manner as explained previously and the following form is recommended with the completion of the blank spaces in 2 (a), 3 (a), 5, and the Secretary's Certificate at the end of the resolution completed in the manner as set out in the section Extraordinary Resolutions.

For use in Co-operatives in Nova Scotia Incorporated under the Co-operative Associations Acts of 1977, Chapter 7.

Name of Lending Institution _____ Form # _____

CO-OPERATIVE ASSOCIATIONS

_____ Limited

EXTRAORDINARY RESOLUTION

Respecting the Borrowing of Money by the Association.

BE IT RESOLVED as an Extraordinary Resolution of the Association,

1. THAT the members of the Association in General Meeting assembled hereby sanction the exercise by the Association of all and every power to borrow money and to secure repayment thereof which is conferred upon it by Nova Scotia Co-operative Associations Act, Chapter 7, Acts of 1977.

2. AND THAT without limiting the generality of the foregoing provision THE ASSOCIATION may from time to time:
   (a) Borrow money from _____ upon the credit of the Association;
   (b) Limit or increase the amount to be borrowed;
   (c) Hypothecate, mortgage, pledge, charge or assign the real and/or the rights and powers of the Association or any of them, by way of collateral or additional security for the repayment of any moneys borrowed for the purposes of the Association;
   (d) Give promises and agreements to give security to secure any moneys borrowed for the purposes of the Association;
   (e) Give additional security at any time for any money borrowed or remaining due by the Association;
   (f) Issue bonds, debentures or debenture stock of the Association secured by mortgage or otherwise or charged upon all or any part of the property of the Association, both present and future, including its uncalled capital for the time being;
   (g) Sign or endorse bills, notes, acceptances, cheques, contracts and other evidence of or securities for money borrowed or to be borrowed for the purposes aforesaid;
   (h) Pledge debentures as security for loans;
   (i) Execute all such charges, hypothecations, mortgages, assignments and pledges of the whole or any part or parts of its real and/or personal property, rights and/or powers or any of them, to secure the repayment of any moneys raised or borrowed for the purposes of the Association in accordance with the power conferred by this resolution.

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3. AND THAT THE DIRECTORS of the Association may exercise all such powers and do all such acts and things as may be exercised or done by the Association by virtue of the foregoing provisions; and without limiting the generality of the foregoing, may from time to time:
(a) Borrow money from _____ upon the credit of the Association;
(b) Limit or increase the amount to be borrowed;
(c) Hypothecate, mortgage, pledge, charge or assign the real and/or personal property of the Association or any part or parts thereof and/or the rights or powers of the Association or any of them, by way of collateral or additional security for the repayment of any moneys borrowed for the purposes of the Association;
(d) Give promises and agreements to give the real and/or personal property of the Association or any part or parts thereof and/or rights and powers of the Association or any of them as security to secure any moneys borrowed for the purposes of the Association;
(e) Give as additional security for any money borrowed or remaining due by the Association, the real and/or personal property or any part or parts thereof and/or rights and powers thereof or any of them;
(f) Issue bonds, debentures or debenture stock of the Association secured by mortgage or otherwise or charged upon all or any part of the property of the Association, both present and future, including its uncalled capital for the time being;
(g) Sign or endorse bills, notes, acceptances, cheques, contracts and other evidence of or securities for money borrowed or to be borrowed for the purposes aforesaid;
(h) Pledge debentures as security for loans;
(i) Execute all such charges, hypothecations, mortgages, assignments and pledges of the whole or any part or parts of its real and/or personal property, rights and/or powers or any of them, to secure the repayment of any moneys raised or borrowed in accordance with the power conferred by this resolution.

4. AND THAT the powers hereby conferred shall be deemed to be in supplement of and not in substitution for any powers to borrow money for the purposes of the Association possessed by the Directors.

5. AND THAT the borrowing of money from time to time heretofore made under the authority of the Directors from _____ or any other Lending Institution and the giving of security therefore or otherwise or in any manner whatsoever be and they are hereby ratified and confirmed.

AND THAT this resolution shall continue in force until a resolution repealing the same shall have been sanctioned by the members and a copy thereof duly certified under the seal of the Association delivered to the said Lending Institution and receipt thereof acknowledged by it.

The Association must forward two copies of this Resolution, duly completed, to the Inspector of Co-operative Associations, P.O. Box 550, Truro, B2N 5E3, within 15 days from the date of passage, along with a cheque for five dollars ($5.00).

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INSPECTOR OF CO-OPERATIVES REPORT FOR AUDITORS IN NOVA SCOTIA

The administration of Co-operatives is quite different than for any other incorporated business organization in the province. The Inspector of Co-operatives, appointed by the Minister of Agriculture and Marketing, has a responsibility to report to the Minister on the standing of each organization. Each organization is required to forward an auditor's report, financial statements and any other information the Inspector thinks is necessary to administer Co-operatives in the province.

Since Co-operatives are incorporated as a privilege and not a right of law, only those Co-operatives which operate on a Co-operative Basis may hold a charter. If, in the opinion of the Inspector, a Co-operative is not operating on a co-operative basis, the Co-operative may be forced to cease operating under Co-operative legislation.

Much of the information the Inspector receives to assure him that the Co-operative is operating effectively comes from the reports of the auditor. Since the reports of the auditor are critical to the Inspector's assessment of the Co-operative, the Inspector is required to approve the appointment of each auditor and may suspend the auditor if the auditor fails to comply with the requirements of the Act.

There are a few special requirements in the auditing of co-operatives which may be beneficial to the organization (Directors and management) and to the Inspector of Co-operatives. They are:

1. An audit engagement letter prepared by the auditor prior to the audit to the chairman of the audit committee, setting out the terms of engagement including that, as part of the audit and reporting procedure, a completed Inspector of Co-operatives report as well be forwarded to the President and the Inspector of Co-operatives.

2. A management letter prepared by the auditor after the audit is completed, to be prepared and discussed with the manager and made available to the Inspector of Co-operatives when requested.

Non-Audits

A non-audit may be approved in some circumstances:

1. When the level of business activity is very small and where the business is straightforward, the Inspector may permit a non-audit providing the members agree to the non-audit, and the treasurer submits the necessary completed forms. However, when the Inspector believes that a non-audit is inadequate, a full audit may be required.

2. When special circumstances are present, the Inspector may waive an audit and allow an accountant's comments or a review whichever is appropriate. When a review is to be performed, confirmation of approval of the Co-operative's banking institution should be obtained.

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The Co-operative should not pay the auditor's fees until the Inspector receives the Inspector's report, as well as the auditor's report.

The Inspector is available for consultation and assistance to all auditors and Co-operatives and should be kept informed where shortcomings appear.

Co-operatives will obtain much more value from their audit when their audit committee is functioning well. The information the audit committee obtains from the auditor can be the most valuable part of the audit.

To better understand the audit and the audit reports, each audit committee should be supplied, by the auditor, a copy of "Understanding Audits and Audit Reports" published by the Canadian Institute of Chartered Accountants; as well, information about audits and auditing is available from the Inspector of Co-operative's office.

Forms for non-audits are available from the office of the Inspector of Co-operatives, P.O. Box 550, Truro, Nova Scotia, B2N 5E3, which include: (a) non-audit approval form; (b) balance sheet; (c) operating statement and disclosure statement.

To better understand the finances of co-operatives, a book prepared and distributed by Co-op College is advised, the title of the book is "Financial Management in Co-operative Enterprises" by A.E. Rasmussen, available from Co-op College, Saskatoon, Saskatchewan, S7N 1N3.

Fred A. Pierce

Co-operatives Associations Act
S.N.S. 1977, Chapter 7

INSPECTOR OF CO-OPERATIVES REPORT

To be completed by the Co-operatives' auditor as a condition of being approved as Auditor of the Association and to be forwarded to the Inspector of Co-operatives, P.O. Box 550, Truro, B2N 5E3 within four months of the year end of the Co-operative, accompanied by:

1. Auditor's Report,
2. Audited Financial Statement,
3. Auditor's Management Letter, when requested.

For Co-operatives which the Inspector has approved, a non-audit form is required to be completed by the accountant or other approved person.

Co-operative's Name _____

Address _____ Postal Code _____

Auditor's Name _____

Auditor's Address _____

Period Covered _____

Officers:		Home Addresses:
President	_____	_____
Vice President	_____	_____
Secretary	_____	_____
Manager	_____	_____

Directors:

1	_____	5	_____
2	_____	6	_____
3	_____	7	_____
4	_____	8	_____

Membership Total _____ Active _____

Employees Full Time _____ Part Time _____

Member Business % _____ Value _____

Bank or Credit Union _____

Insurance Representative _____

Solicitor _____

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Co-operative Associations Act

S.N.S. 1977, Chapter 7

AUDITOR'S REPORT TO THE INSPECTOR OF CO-OPERATIVES TO BE COMPLETED BY THE AUDITORS OF CO-OPERATIVES AS A PROVISION OF APPOINTMENT AS AUDITOR

Please respond to these enquiries and forward your response to the Inspector of Co-operatives, P. O. Box 550, Truro, B2N 5E3.

Yes	No	
( )	( )	1. Has your attached audit been performed in accordance with the Standards of the Canadian Institute of Chartered Accountants?
( )	( )	2. Have the accounting principles been set out in the notes to the financial statements, and include where applicable: (a) accounting system; (b) depreciation; (c) doubtful accounts; (d) capitalization of fixed assets, expenditures; (e) deferred costs; (f) contingent liabilities; (g) changes in accounting principles applied during the year; (h) qualification of the audit report?
( )	( )	3. Have you met with the Audit Committee of the Board?
( )	( )	4. Are the accounting records adequate in your opinion?
( )	( )	5. Is the credit policy approved by the Board, and being adequately carried out?
( )	( )	6. Does the management information system include a budget system and are the systems reasonably documented and operative?
( )	( )	7. Is there adequate control over the physical inventory of the Co-operative?
( )	( )	8. Does the insurance coverage cover all risks on assets at replacement cost?
( )	( )	- business interruption?
( )	( )	- liabilities?
		9. Have --
( )	( )	- the share and member loan ledgers been accurately kept?
( )	( )	- the minutes book been properly signed and reviewed?
( )	( )	- the by-laws regulations and Act been reviewed by you?
( )	( )	- salary increases for top management been approved by the Board?
( )	( )	10. Has a management letter been forwarded to the manager?
_____		11. What part of your fee, if any, is for non-audit engagement work, especially work normally done by the Co-operative staff?

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NON-AUDIT PROCEDURE

Although the Co-operative Associations Act states that an audit is required each year, and audits to many are interpreted as an examination by a Chartered Accountant, this procedure is really not practical in many situations.

Non-Audit Qualifications

All auditors of Co-operatives require the approval of the Inspector of Co-operatives; similarly, when a non-audit is thought advisable, the Co-operative (President) is also required to obtain approval of the Inspector.

Large Co-operatives with assets over one million dollars must have a Chartered Accountant audit their organization.

For smaller Co-operatives, a qualified auditor approved by the Inspector is required to audit the Co-operative's finances.

Small Co-operatives with sales of less than fifty (50) thousand dollars, and/or assets less than 50 thousand dollars may submit a Treasurer's Report containing — (1) Balance Sheet; (2) Operating Statement; (3) Treasurer's Comments; and (4) Inspector's Report.

Before permission is given to the Co-operative for a NON-AUDIT, the directors must receive a consent from a Members Annual Meeting not to appoint an auditor. This request signed by the Secretary must be forwarded to the Inspector of Co-operatives for his approval.

Following are the procedure forms which may assist in meeting this most important requirement of the Co-operative Associations Act.

MEMBERSHIP CONSENT NOT TO APPOINT AN AUDITOR

At an Annual Meeting of the members of _____ _____ Co-operative Limited held at _____ in the County of _____ on the _____ day of _____ 19 ___ a motion was presented to the meeting and was passed by the members which gives consent of the members not to appoint an auditor for the fiscal year ending _____ 19 ___.

This letter is a request to the Inspector of Co-operatives for approval of this motion.

_____
Secretary

Approved _____
Inspector of Co-operatives
P.O. Box 550, Truro, N.S.
B2N 5E3

This approval is on condition that a balance sheet and operating statement are to be submitted to the Inspector of Co-operatives by the Treasurer of the Association, stating that in the opinion of the Treasurer the balance sheet and operating statement represent fairly the financial position of the Co-operative.

BALANCE SHEET
of

Name of Assoc. _____

Period covered _____

Assets		Liabilities	
Current Assets		Current Liabilities	
Cash on Hand	_____	Accounts Payable	_____
Cash in bank	_____		_____
Accounts Receivable	_____	Bank Loan	_____
less allowance	_____	Other payables	_____
for bad debts		Outstanding cheques	_____
Inventories at cost	_____		
	_____		
Current Assets	_____	Current Liabilities	_____
Prepaid Expenses	_____	Long term Debt	_____
Investments	_____	Members	_____
	_____	Mortgage	_____
		Long term	_____
Fixed Assets		**Members' Equity**	
Land	_____	Reserves	_____
Buildings	_____	Share Capital	_____
Equipment	_____	Member loans	_____
	_____	Retained Surplus	_____
	_____	Gain for year	_____
Total Assets	_____	Members' Equity	_____
		Total Liabilities	_____

_____

Accountant or Treasurer

OPERATING STATEMENT

of

Name of Assoc. _____

Period covered _____

		Expenses	
Sales	_____	Wages	_____
	_____	Employee Benefits	_____ %
	_____	Accounting	_____
Cost of Goods	_____	Labour casual	_____
Gross Margin	_____ %	Depreciation Buildings	_____
Other Income	_____	Equipment	_____
Total Income	_____	Motor Vehicles	_____
Total Expenses	_____	Rental	_____ %
Gain or (Loss)	_____	Insurance	_____
		Taxes	_____
Cost of Goods		Heat, Light & Power	_____
Starting Inventory	_____	Repairs & Maintenance	_____
Plus purchases	_____	Interest on Loans	_____
Less closing Inventory	_____	Interest on Members Investment	_____ %
Cost of goods	_____	Advertising	_____
		Supplies	_____
		Telephone	_____ %
		Auditing	_____
		Other Expenses	_____
		Total Expenses	_____

_____

Accountant or Treasurer

CHANGE OF ADDRESS

Change of Address is sometimes referred to as Notice of Registered Office.

The business of a Co-operative often changes reflecting a change of address. Unless the Co-operative officially notifies the office of the Inspector of the change, it is sometimes not accurately identified in the records.

The change of address should include the street address, if a postal box number is used, and should also include the postal code.

The form on the other side of this page is suggested for your use. There is no charge for this registration of change of address.

The address as recorded in the Annual Report of Co-operatives is the official registered address of the Co-operative. If you believe this address is incorrect, please complete the 'Notice of Registered Address' form.

NOTICE OF REGISTERED OFFICE

THE CO-OPERATIVE ASSOCIATIONS ACT

CHAPTER 7, ACTS OF 1977

NOVA SCOTIA

To the Inspector of Co-operatives

_____ Limited

hereby gives you Notice in accordance with the Co-operative Associations Act, Chapter 7, Acts of 1977, Section 22 and 23 that the Registered office of the Association is situated at

Number of building _____

Street _____

Town _____

Province _____

Postal Code _____

_____

Secretary of the said Association

SEAL

Dated _____ day

of _____ 19 __.

Two copies of this Notice are to be forwarded to the Inspector of Co-operatives, P.O. Box 550, Truro, Nova Scotia B2N 5E3 within 28 days of the change of the registered office.

DEVELOPMENT RESOURCE MATERIALS AVAILABLE

The Co-operatives Section has prepared a number of pamphlets and booklets on Co-operative information. As well, other organizations have prepared information on Co-operatives which may be useful to those wanting to learn more about Co-operatives and co-operation.

A. Resource materials from N.S. Co-operatives Section:
BOOKLETS:

1. How to Start a Co-operative - 78 pages, describes Co-operative principles, structure, capitalization, organization and requirements for success. Included also are the fill-in-the-blank Incorporation forms, Articles of Incorporation and By-laws.
2. Co-operative Associations Act and Regulations
3. Annual Report of Nova Scotia Co-operatives - 24 pages. Including annual statistics, new incorporations, Co-operatives struck from the Registry, list of Co-operatives and officers by county.
4. Directors of Co-operatives - Co-op Digest #2 - 46 pages. Outlines the duties and functions of Co-operative Directors, and suggestions for effective operations of Boards.
5. Co-operative Digest for Directors - 111 pages. Fifteen articles prepared by leading business and Co-operative leaders on topics designed for Board members.
6. Co-operative Statistics and Standards of Performance - 12 pages for retail Co-operatives taken from reports of Nova Scotia Co-operatives compared to similar information from retail Co-operatives in Western Canada.
7. Mr. Chairman - 21 pages. Briefly explains Roberts Rules of Order for the President of a Co-operative.
8. The Board Manual for Co-operatives - 37 pages. Provides much information for a Director's Manual including job descriptions organizational chart, committee operations, policies. Director meeting guides, by-laws, auditing procedures, Inspector's Report, secretary's fill-in-the-blank forms, and an excellent procedure for assessing the manager.

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MISCELLANEOUS INFORMATION CONCERNING LEGAL PROCEDURES OF THE CO-OPERATIVES ASSOCIATION ACT

Liquidation of a Co-operative - 61

A Co-operative may wind-up on a voluntary basis under the Co-operative Associations Act by having the members or the Inspector of Co-operatives appoint a liquidator.

A detailed step-by-step procedure and guide has been prepared for liquidators which is designed to make the liquidation procedures more easily understood. This guide is available to liquidators upon approva of their appointment.

Any inquiries or further information should be directed to the Inspector of Co-operatives, P.O. Box 550, Truro, B2N 5E3.

Inspector's Approval to Sell - 16(c)

Under certain circumstances it is not feasible nor practical to obtain the permission of the members by an extraordinary resolution to sell, mortgage, lease or otherwise dispose of the property or undertakings of the Association. In these circumstances, the Inspector of Co-operatives may give approval to the Board of Directors providing there is a satisfactory explanation of why the extraordinary resolution was not obtained.

Change of Name

When a Co-operative wishes to obtain a Change of Name, a special procedure is required.

The members first must give approval through an extraordinary resolution and then a request to the Provincial Secretary through the Registrar of Joint Stock Companies must be given.

The procedure is not often used so it is suggested, before the members' meeting takes place that necessary requirements be reviewed with the Inspector, and that the proper forms be obtained from the Inspector's office.

Joint Venture - 16(i)

When a Co-operative decides to enter into a Joint Venture agreemen for co-operation, etc., with another Co-operative or with any person or company with objects similar to the Co-operative, the project is subject to the approval of the Inspector of Co-operatives.

When a Joint Venture is anticipated, contact should be made with the Inspector to determine what information is required and to obtain a certificate of approval.

CERTIFICATE OF CONTINUANCE - 16 (v)

When a provincially incorporated Co-operative begins to have operations in more than two provinces, there may be advantages for the Co-operative to have federal status.

If the Co-operative requires federal status, the Co-operative must obtain an extraordinary resolution from the members and then apply to the Minister of Agriculture and Marketing for permission for the Co-operative to continue as a Corporation under the Federal Co-operatives Associations Act.

This procedure is not often used so it is suggested a close contact with the Inspector be maintained.

If there are any other areas of legal concern of the Co-operative, it is usually advisable to contact the Inspector so that his experience and the experiences of other Co-operatives may be shared with the Co-operative and its associates.

CERTIFICATE OF GOOD STANDING

Some lending institutions and some solicitors to assure themselves that the Co-operative has complied with the provisions of the Act and the Inspector's requirements request a Certificate of Good Standing from the Inspector.

BY-LAW AND ARTICLES REVISION

The Co-operative's Board of Directors should periodically examine the by-laws and articles of the Co-operative to be assured the by-laws accurately reflect the practices, objectives and purpose of the Co-operative, and if changes are needed consult with the Inspector, and then make recommendations for changes at the next annual or general membership meeting through an extraordinary resolution.

INSPECTOR'S INVESTIGATION AND EXAMINATION

If a member or group of members of a Co-operative are not satisfied with the management of the Co-operative, they may request the Secretary to call a meeting to discuss their concerns. The members may also ask the Inspector of Co-operatives to examine into the affairs of the Co-operative, and if advisable, report to a general meeting of his findings. This procedure is not often put into effect; usually the concerns of members are from inadequate information and can, in most cases, be resolved through dialogue with the Inspector as mediator.